

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|---------------------------------|---|--------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name Mid-Michigan Library League | County Wexford |
| Audit Date 9/30/05 | Opinion Date 10/24/05 | Date Accountant Report Submitted to State: 11/17/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|---|--|-------------------------|-------------------------|
| Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C. | | | |
| Street Address 134 W. Harris Street | | City Cadillac | State MI |
| Accountant Signature  | | ZIP 49601 | Date 11/16/05 |

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

SEPTEMBER 30, 2005

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CERTIFIED PUBLIC ACCOUNTANTS

October 24, 2005

INDEPENDENT AUDITORS' REPORT

Mid-Michigan Library League Board
Cadillac, Michigan

We have audited the accompanying basic financial statements of the Mid-Michigan Library League (a library cooperative) as of and for the year ended September 30, 2005, which collectively comprise the League's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Mid-Michigan Library League's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Mid-Michigan Library League as of September 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages ii through v and budgetary comparison information on pages 5 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MID MICHIGAN LIBRARY LEAGUE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

Mid Michigan Library League, a Library Cooperative located in Wexford County, Michigan offers this narrative overview and analysis of the financial activities of the League for the fiscal year ended September 30, 2005 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the League's financial activity.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements, required by GASB 34, are calculated using full accrual accounting and more closely represent those presented by business and industry. The League's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

C. Summary of Net Assets

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the League's financial position over time. The Net Assets of the League are \$40,119 at September 30, 2005, meaning the League's assets were greater than its liabilities by this amount. Net assets may serve over time as a useful indicator of a government's financial position. A comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous fiscal year.

MID MICHIGAN LIBRARY LEAGUE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

| | <u>2005</u> | <u>2004</u> |
|--|-------------------|-------------------|
| Assets | | |
| Current Assets | \$ 80,001 | \$ 107,834 |
| Non Current Assets | | |
| Capital Assets | 46,782 | 46,782 |
| Less Accumulated Depreciation | <u>(15,305)</u> | <u>(5,949)</u> |
| Total Non Current Assets | <u>31,477</u> | <u>40,833</u> |
| Total Assets | <u>\$ 111,478</u> | <u>148,667</u> |
| Liabilities | | |
| Current Liabilities | \$ 46,830 | \$ 74,043 |
| Non Current Liabilities | <u>24,529</u> | <u>31,046</u> |
| Total Liabilities | <u>71,359</u> | <u>105,089</u> |
| Net Assets | | |
| Invested in Capital Assets Net of Related Debt | 27,163 | 35,024 |
| Unrestricted | <u>12,956</u> | <u>8,554</u> |
| Total Net Assets | <u>40,119</u> | <u>43,578</u> |
| Total Liabilities and Net Assets | <u>\$ 111,478</u> | <u>\$ 148,667</u> |

D. Analysis of Financial Position

During the fiscal year ended September 30, 2005, the League's net assets decreased by \$3,459. A significant factor affecting net assets during the year is discussed below:

1. Depreciation Expense

GASB 34 requires Mid Michigan Library League to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

MID MICHIGAN LIBRARY LEAGUE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended September 30, 2005, \$9,356 was recorded for depreciation expense.

E. Results of Operations

The following table illustrates and summarizes the results of the changes in the net assets for the League. The condensed information was derived from the government-wide Statement of Activities:

| | 2005 | | 2004 | |
|-----------------------------|-------------------|----------------|----------------|----------------|
| | Amount | % of Total | Amount | % of Total |
| Revenues | | | | |
| Charges for Services | \$ 40,832 | 7.39% | \$ 36,402 | 7.10% |
| Grants | 80,608 | 14.60% | 32,773 | 6.40% |
| State Sources | 419,167 | 75.89% | 434,216 | 84.82% |
| Investment Earnings | 1,253 | 0.23% | 899 | 0.17% |
| Other | 10,418 | 1.89% | 7,738 | 1.51% |
| Total Revenues | 552,278 | 100.00% | 512,028 | 100.00% |
| Expenses | | | | |
| Culture and Recreation | (555,737) | | (491,198) | |
| Change in Net Assets | \$ (3,459) | | 20,830 | |

F. Analysis of Significant Revenues

Significant revenues are discussed in the segments below:

1. State Sources

The majority of the state sources is comprised of direct state aid. The League collected \$246,188 in direct state aid for the fiscal year ending September 30, 2005.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on October 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on September 30th.

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

MID MICHIGAN LIBRARY LEAGUE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
|-------------------------|--------------------|-----------------|------------|-------------------------------------|
| Total Revenues | \$ 561,800 | \$ 551,173 | \$ 552,278 | \$ 1,105 |
| Total Expenditures | (543,000) | (544,410) | (577,859) | (33,449) |
| Other Financing Sources | 0 | 0 | 25,000 | 25,000 |
| Total | \$ 18,800 | \$ 6,763 | \$ (581) | \$ (7,344) |

H. Capital Assets

At September 30, the League had \$46,782 in capital assets, including equipment and vehicles. Depreciation expense for the year amounted to \$9,356, bringing the accumulated depreciation to \$15,305 as of September 30, 2005.

I. Factors Bearing on the League's Future

At the time that these financial statements were prepared and audited, the League was aware of the following item that could significantly affect its financial health in the future:

- The decrease in State Aid anticipated over the coming years.

J. Contacting the League's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the League's finances and to demonstrate the League's accountability for the money it receives. If you have questions about this report, please contact Mid Michigan Library League, 210 ½ N. Mitchell Street, Cadillac, MI 49601.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2005

ASSETS

CURRENT ASSETS

| | |
|----------------------------|---------------|
| Cash | |
| Due From Other Governments | \$ 71,256 |
| Notes Receivable | 8,045 |
| | 700 |
| Total Current Assets | <u>80,001</u> |

NON CURRENT ASSETS

| | |
|--------------------------------|-----------------|
| Capital Assets | 46,782 |
| Less: Accumulated Depreciation | <u>(15,305)</u> |

| | |
|--------------------------|---------------|
| Total Non Current Assets | <u>31,477</u> |
|--------------------------|---------------|

| | |
|--------------|----------------|
| TOTAL ASSETS | <u>111,478</u> |
|--------------|----------------|

LIABILITIES

CURRENT LIABILITIES

| | |
|-----------------------------------|---------------|
| Accounts Payable | 3,663 |
| Due To Other Governments | 36,787 |
| Accrued Wages | 4,503 |
| Accrued Payroll Withholdings | 343 |
| Current Portion of Long Term Debt | <u>1,534</u> |
| Total Current Liabilities | <u>46,830</u> |

NON CURRENT LIABILITIES

| | |
|-------------------------------|----------------|
| Compensated Absences | 21,749 |
| Capital Lease Payable | 4,314 |
| Less: Current Portion | <u>(1,534)</u> |
| Total Non Current Liabilities | <u>24,529</u> |

| | |
|-------------------|---------------|
| Total Liabilities | <u>71,359</u> |
|-------------------|---------------|

NET ASSETS

| | |
|--|------------------|
| Invested in Capital Assets Net of Related Debt | 27,163 |
| Unrestricted | <u>12,956</u> |
| Total Net Assets | <u>\$ 40,119</u> |

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2005

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES | | GOVERNMENTAL |
|--------------------------------|------------|-------------------------|-----------|--|
| | | CHARGES FOR SERVICES | GRANTS | ACTIVITIES |
| | | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS |
| <u>GOVERNMENTAL ACTIVITIES</u> | | | | |
| General Government | | | | |
| Culture and Recreation | \$ 555,737 | \$ 40,832 | \$ 80,608 | \$ (434,297) |
| <u>GENERAL REVENUES</u> | | | | |
| State Sources | | | | 419,167 |
| Investment Earnings | | | | 1,253 |
| Other | | | | 10,418 |
| Total General Revenues | | | | 430,838 |
| Change in Net Assets | | | | (3,459) |
| NET ASSETS - Beginning of Year | | | | 43,578 |
| NET ASSETS - End of Year | | | | \$ 40,119 |

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN
GOVERNMENTAL BALANCE SHEET - GENERAL FUND
SEPTEMBER 30, 2005

ASSETS

| | |
|----------------------------|------------------|
| Cash | |
| Due From Other Governments | \$ 71,256 |
| Notes Receivable | 8,045 |
| | <u>700</u> |
| TOTAL ASSETS | <u>\$ 80,001</u> |

LIABILITIES

| | |
|------------------------------|------------|
| Accounts Payable | |
| Due To Other Governments | \$ 3,663 |
| Accrued Wages | 36,787 |
| Accrued Payroll Withholdings | 4,503 |
| | <u>343</u> |
| Total Liabilities | 45,296 |

FUND BALANCE

| | |
|------------------------------------|------------------|
| Unreserved | |
| Unrestricted | <u>34,705</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 80,001</u> |

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

SEPTEMBER 30, 2005

| | | |
|---|-----------------|------------------|
| Total General Fund Balance | | \$ 34,705 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and are not reported in the fund | | |
| The cost of the capital assets is | 46,782 | |
| Accumulated depreciation is | <u>(15,305)</u> | 31,477 |
| Long term liabilities are not due and payable in the current period and are not reported in the funds | | |
| Capital Lease Payable | | (4,314) |
| Compensated Absences | | <u>(21,749)</u> |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | | <u>\$ 40,119</u> |

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2005

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE FINAL BUDGET TO ACTUAL |
|---|--------------------|-----------------|-----------|---------------------------------------|
| REVENUES | | | | |
| Federal Grants | | | | |
| Library Services and Technology Act | \$ 80,000 | \$ 80,608 | \$ 80,608 | \$ 0 |
| State Grants | | | | |
| Library State Aid | | | | |
| Direct State Aid | 246,900 | 246,188 | 246,188 | 0 |
| Indirect State Aid | 180,400 | 176,418 | 172,979 | (3,439) |
| Charges for Services | | | | |
| Supply Charges | 52,500 | 38,000 | 37,134 | (866) |
| Other Charges | 0 | 0 | 3,698 | 3,698 |
| Interest and Rents | | | | |
| Interest Earnings | 1,000 | 800 | 1,253 | 453 |
| Other Revenue | | | | |
| Refunds and Reimbursements | 0 | 909 | 4,714 | 3,805 |
| Reimbursements from Member Libraries | 0 | 7,500 | 4,783 | (2,717) |
| Miscellaneous | 1,000 | 750 | 921 | 171 |
| Total Revenues | 561,800 | 551,173 | 552,278 | 1,105 |
| EXPENDITURES | | | | |
| Culture and Recreation | | | | |
| Personal Services | | | | |
| Salaries and Wages | 222,400 | 237,210 | 241,301 | (4,091) |
| Employee Benefits | 76,100 | 65,000 | 68,613 | (3,613) |
| Supplies | | | | |
| Office Supplies and Postage | 9,500 | 6,900 | 6,887 | 13 |
| General Operating Supplies | 11,200 | 11,772 | 13,741 | (1,969) |
| Books, Periodicals and Computer Software | 3,600 | 2,150 | 2,353 | (203) |
| Purchases for Member Libraries | 0 | 2,200 | 2,434 | (234) |
| Miscellaneous | 300 | 350 | 33 | 317 |
| Other Services and Charges | | | | |
| Purchased Professional and Technical Services | 173,500 | 178,882 | 176,654 | 2,228 |

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2005

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE FINAL BUDGET TO ACTUAL |
|---|--------------------|-----------------|-----------|---------------------------------------|
| Repair and Maintenance | 4,800 | 2,020 | 1,885 | 135 |
| Rental of Building and Equipment | 10,000 | 11,066 | 10,952 | 114 |
| Bad Debt Expense | 0 | 0 | 834 | (834) |
| Other Purchased Services | | | | |
| Insurance | 2,500 | 4,200 | 4,427 | (227) |
| Communications | 4,000 | 4,200 | 4,210 | (10) |
| Utilities | 2,400 | 3,000 | 3,101 | (101) |
| Travel and Workshops | 12,900 | 6,871 | 7,959 | (1,088) |
| Dues and Memberships | 1,500 | 1,300 | 1,497 | (197) |
| Director's Search | 0 | 250 | 250 | 0 |
| Capital Outlay | 8,300 | 6,893 | 3,957 | 2,936 |
| Debt Service | | | | |
| Principal | 0 | 0 | 26,495 | (26,495) |
| Interest | 0 | 146 | 276 | (130) |
| Total Expenditures | 543,000 | 544,410 | 577,859 | (33,449) |
| Excess of Revenues Over (under) Expenditures | 18,800 | 6,763 | (25,581) | (32,344) |
| OTHER FINANCING SOURCES | | | | |
| Loan Proceeds - Line of Credit | 0 | 0 | 25,000 | 25,000 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures | 18,800 | 6,763 | (581) | (7,344) |
| FUND BALANCE - Beginning of Year | 35,286 | 35,286 | 35,286 | 0 |
| FUND BALANCE - End of Year | \$ 54,086 | \$ 42,049 | \$ 34,705 | \$ (7,344) |

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

RECONCILIATION OF THE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE OF GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2005

| | |
|--|-------------------|
| Net change in Fund Balance General Fund | \$ (581) |
| Amounts reported for governmental activities are different because: | |
| Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation. | |
| Depreciation Expense | (9,356) |
| Repayments of principal on debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities). | 26,495 |
| Loan proceeds provide current financial resources to governmental funds by issuing debt which increases debt in the Statement of Net Assets. | (25,000) |
| Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds: | |
| Compensated Absences - Beginning of Year | 26,732 |
| Compensated Absences - End of Year | (21,749) |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ (3,459)</u> |

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Mid-Michigan Library League (League) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The League is a library cooperative formed under Michigan Public Act 89, section 6(a). The League board consists of nine members. Voting member library boards in each member county select one representative to represent the libraries in that county except for member library boards in the counties of Montcalm and Gratiot, who select one representative from the two counties. The League board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the League board is not included in any other governmental "reporting entity" as defined in section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, since league board members are elected by member libraries, and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

In evaluating how to define the entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the League and/or its constituents, or whether the activity is conducted within the geographic boundaries of the League and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the League is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the League's reporting entity.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the League as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the League are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the League considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Governmental funds include the following fund type:

The General Fund is the primary operating fund of the League. It is used to account for all financial resources of the League.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The League has adopted a policy that limits its investments to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- i. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- ii. Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution.
- iii. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- iv. Repurchase agreements consisting of instruments listed in (i).
- v. Banker's acceptances of United States banks.

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CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
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- vi. Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than one standard rating service.
 - vii. Mutual funds registered under the Investment Company Act of 1940, title I of chapter 686, 54 Stat. 789 15 U.S.C. 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the League. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
 - viii. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
 - ix. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.118.
2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

| | |
|------------------------|----------|
| Equipment | 5 years |
| Furniture and Fixtures | 10 years |
| Vehicles | 10 years |

3. Compensated Absences

It is the League's policy to permit employees to accumulate earned but unused sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

4. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

5. Fund Balance

In the financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that

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NOTES TO FINANCIAL STATEMENTS
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are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

6. Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary Information**

The League follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The director of the League annually prepares an operating budget taking into consideration the recommendations of the advisory council. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the League board prior to the start of the fiscal year which it covers.
3. All transfers of budget amounts between accounts within the General Fund must be approved by the League board.
4. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Budgeted amounts are as originally adopted, or as amended by the League board.
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the League because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

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CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. **Deposits and Investments – Credit Risk**

The League's deposits and investments are all on deposit with Fifth Third Bank within the State of Michigan.

The League does not have a formal investment policy that addresses investment rate risk, foreign currency risk, credit risk, concentration of credit risk or custodial credit risk.

Deposits

At year-end, the carrying amount of the League's deposits was \$71,256. The bank balance was \$90,263, which was fully covered by federal depository insurance.

B. **Due from Other Governments**

Amounts due from other governments of \$8,045 are for reimbursements from member libraries for supplies and materials and grant money yet to be received. Substantially all of these receivables are expected to be collected within sixty days of the balance sheet date.

Capital Assets

A summary of changes in the League's capital assets follows:

| | Balance October 1, 2004 | Additions | Deletions | Balance September 30, 2005 |
|-----------------------------|----------------------------|------------|-----------|-------------------------------|
| Capital assets: | | | | |
| Equipment | \$ 46,782 | \$ 0 | \$ 0 | \$ 46,782 |
| Accumulated Depreciation | (5,949) | (9,356) | 0 | (15,305) |
| Net capital assets | \$ 40,833 | \$ (9,356) | \$ 0 | \$ 31,477 |

D. **Short-Term Debt**

The League secured a line of credit for \$25,000 on May 2, 2005 to be used for general administrative expenses throughout the year. The Principal sum outstanding carries an interest rate that varies based on the prime rate. The outstanding principal is due by May 5, 2006 and the interest is payable on the 5th day of each month. The balance outstanding at September 30, 2005 was \$0.

A summary of the Short-Term Debt transactions for the League for the year ended September 30, 2005, is as follows:

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CADILLAC, MICHIGAN

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| | <u>LINE OF CREDIT</u> |
|---------------------------------------|-----------------------|
| Short-Term Debt at October 1, 2004 | \$ 0 |
| New Liabilities | 25,000 |
| Liabilities Retired | <u>(25,000)</u> |
| Short-Term Debt at September 30, 2005 | \$ <u>0</u> |

E. Long-Term Debt

A summary of the Long-Term Debt transactions for the League for the year ended September 30, 2005, is as follows:

| | <u>CAPITAL LEASE</u> | <u>COMPENSATED ABSENCES</u> |
|--|----------------------|-----------------------------|
| Long-Term Debt at October 1, 2004 | \$ 4,314 | \$ 26,732 |
| Liabilities Increase (Decrease) | 0 | (4,983) |
| Liabilities Retired or Classified as Current | <u>(1,534)</u> | <u>0</u> |
| Long-Term Debt at September 30, 2005 | \$ <u>2,780</u> | \$ <u>21,749</u> |

F. Compensated Absences Liability

Employees of the Mid-Michigan Library League are entitled to paid vacation and paid sick days depending on job classification, length of service and other factors. At September 30, 2005, the accrued expense for compensated absences was \$21,749.

IV. OTHER INFORMATION

A. Building Lease

Starting May 1, 2004, the League entered into a 24-month operating lease for a portion of a building in downtown Cadillac, Michigan for \$800 per month for the first year and \$850 per month for the second year. The total cost for the lease was \$9,800 for the year ended September 30, 2005. The future minimum lease payments are as follows:

| | |
|---------------------------|-----------------|
| Year Ending September 30, | |
| 2006 | \$ <u>6,800</u> |

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CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
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B. Leases

Operating Lease - The League leases a postage machine under a noncancelable operating lease. The total cost for the lease was \$288 for the year ended September 30, 2005. The future minimum lease payments are as follows:

Year Ending September 30,

| | |
|------|-----------------|
| 2006 | \$ 1,152 |
| 2007 | 1,152 |
| 2008 | 1,152 |
| 2009 | <u>864</u> |
| | <u>\$ 4,320</u> |

Capital Lease - The League has entered into a lease agreement as lessee for financing the acquisition of an all in one copier/fax/printer. A \$1 purchase option exists at the end of the lease. This lease qualifies as a capital lease for accounting purposes. The assets acquired through the lease are as follows:

ASSETS

Equipment

Less: Accumulated Depreciation

TOTAL

| <u>AMOUNT</u> |
|-----------------|
| \$ 6,504 |
| <u>(1,734)</u> |
| <u>\$ 4,770</u> |

The future minimum lease obligations of these minimum lease payments as of September 30, 2005 are as follows:

| Year Ending September 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|------------------|-----------------|-----------------|
| 2006 | \$ 1,534 | \$ 92 | \$ 1,626 |
| 2007 | 1,573 | 53 | 1,626 |
| 2008 | <u>1,207</u> | <u>12</u> | <u>1,219</u> |
| Total minimum lease payments | <u>\$ 4,314</u> | <u>\$ 157</u> | <u>\$ 4,471</u> |

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
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C. Retirement Commitments

The League's participates in an agent multi-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan for coverage of substantially all of the League's general employees.

Plan Description. Substantially all full-time employees of the League are members of the **Municipal Employees Retirement System of Michigan (MERS)** which provides retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer pension plan administered by the State of Michigan. Act No. 427 of the Public Acts of 1984, as amended, assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities. In this case, the authority rests with the League. The MERS issues a publicly available financial report that includes statements and required supplementary information for MERS. That report may be obtained by writing to The Retirement Board, Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917.

Funding Policy. MERS members are not required to make any contributions to the plan. The League is required to contribute at an actuarially determined rate; the current rate is 7.21% of annual covered payroll. The contribution requirements of plan members and the League are established and may be amended by the MERS board of trustees.

Annual Pension Cost. The required contribution was most recently determined as part of the December 31, 2003 actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions include (a) investment rate of return (net of administrative expenses), and (b) projected salary increases. Both (a) and (b) include an inflation component. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Positive unfunded accrued liability (if any) is amortized as a level percentage of payroll over a closed period of 30 years, while negative unfunded liability (if any) is amortized as a level percentage of payroll over a closed period of 10 years.

D. Concentration of Credit Risk

Financial instruments which potentially subject the League to a concentration of credit risks consist principally of receivables from member libraries. Even though no one member library accounts for a significant portion of this receivable, they are all heavily reliant on state and local revenues. During this period of governmental budget cutting, there is a potential risk that some member libraries could lose significant revenue sources, causing them to default on their obligations to the League. No provision for uncollectible accounts has been made.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

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E. Risk Management

The League is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The League participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The League pays annual premiums to each pool for the respective insurance coverage. In the event a pool member's covered loss exceeds the pools limits, all further payments become the sole obligation of the member. The League has not been notified of any shortfalls in the pools in the current year or the prior three years.

F. Subsequent Event

On October 5, 2005, the League incurred debt to pay off a substantial portion of the amount owed to the Cadillac Wexford Public Library; \$30,000 due in monthly installments of \$598 through October 5, 2010; interest at 7.50 percent.

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MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

October 24, 2005

Mid-Michigan Library League
Cadillac, Michigan

Dear Members of the Board:

During our examination of the financial statements of the Mid-Michigan Library League for the year ended September 30, 2005, we noted the following items which we believe should be considered by the management of the League:

Amounts Owed to Cadillac-Wexford Public Library

Currently, the League owes the Cadillac-Wexford Public Library approximately \$36,787. This is down from \$59,968 from the prior year. As of October 5, 2005, the League took out a loan to pay the majority of the balance off.

Investment Policy

The League has not established an investment policy for its deposits with financial institutions and investments that address credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. This is needed for disclosures under GASB No. 40, *Deposit and Investment Risk Disclosures*.

Budgeting

Expenditures exceeded appropriations in the General Fund. State law requires that the League amend its budget before expending any funds in excess of original appropriations.

We wish to take this opportunity to thank the Board for awarding this firm the audit assignment of the League, and the management for their assistance in helping us fulfill this audit assignment. If you have any questions relative to the preceding comments and recommendations or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

October 24, 2005

LETTER OF REPORTABLE CONDITIONS

Mid Michigan Library League
Cadillac, Michigan

In planning and performing our audit of the basic financial statements of the Mid Michigan Library League for the year ended September 30, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

1. The relatively small number of people involved in the accounting functions of the League make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe all of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.